

PRESS RELEASE



TRANSPARENCY INTERNATIONAL

the coalition against corruption

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Transparency International releases new Bribe Payers Index

Russian, Chinese, Taiwanese and S. Korean companies widely seen using bribes in developing countries

High propensity to bribe overseas also seen for companies from Italy, Hong Kong, Malaysia, United States, Japan, France and Spain

Construction and arms industries top sectors of heaviest bribery

14 May 2002 --- Transparency International (TI), the global anti-corruption organisation, today released its Bribe Payers Index (BPI) 2002, showing very high levels of bribery in developing countries by corporations from Russia, China, Taiwan and South Korea, as well as numerous leading industrial nations, all of which now have laws making corrupt payments to foreign officials a crime. "The laws are not being properly enforced. Our new survey leaves no doubt that large numbers of multinational corporations from the richest nations are pursuing a criminal course to win contracts in the leading emerging market economies of the world," said TI Chairman Peter Eigen.

Speaking in Paris today, on the eve of this year's Ministerial meeting of OECD member countries, Eigen added: "Politicians and public officials from the world's leading industrial countries are ignoring the rot in their own backyards and the criminal bribe-paying activities of multinational firms headquartered in their countries, while increasingly focusing on the high level of corruption in developing countries. The governments of the richest nations continue to fail to recognise the rampant undermining of fair global trade by bribe-paying multinational enterprises. "

He said: "The meeting in the coming days of ministers at the Organisation for Economic Cooperation and Development (OECD) and then the G8 Summit provide the leaders of the industrial world with an opportunity to confront this critical situation."¹

The TI Chairman stressed that today's BPI shows that companies from Russia and China, which are increasingly exporting to other emerging market countries, are using bribes "on an exceptional and intolerable scale. The extent to which companies from Taiwan and South Korea use bribes abroad is only marginally less. The authorities of all of these countries need to do more to prevent bribery by their firms abroad."

¹ The OECD Ministerial takes place in Paris on May 15-16, and the G8 Summit will be held in Canada on June 26-27, 2002

TI's BPI is based on surveys conducted in 15 emerging market economies by Gallup International Association.

The BPI shows that US multinational corporations, which have faced the risk of criminal prosecution since 1977 under the Foreign Corrupt Practices Act, have a high propensity to pay bribes to foreign government officials. The US score of 5.3 out of a best possible clean 10 is matched by Japanese companies and is worse than the scores for corporations from France, Spain, Germany, Singapore and the United Kingdom. The highest scores, indicating the lowest propensity to bribe abroad, were for companies from Australia, Sweden, Switzerland, Austria, Canada, the Netherlands and Belgium.

The TI Bribe Payers survey is the most comprehensive set of opinion polls on perceptions of the sources of corruption that has ever been undertaken and expands on the first TI BPI in 1999. Today's results provide detailed reports on the propensity of multinational corporations to bribe; the business sectors most contaminated by bribery; the extent to which executives of major corporations overseas are even aware of the landmark OECD Anti-Bribery Convention that outlawed bribery of foreign public officials; the degree to which these firms are enforcing compliance with the Convention; and perceptions of unfair business practices apart from bribery used by firms to gain contracts.

The BPI was conducted in 15 emerging market economies: Argentina, Brazil, Colombia, Hungary, India, Indonesia, Mexico, Morocco, Nigeria, the Philippines, Poland, Russia, South Africa, South Korea and Thailand, which are among the very largest such countries involved in trade and investment with multinational firms. A total of 835 interviews were carried out between December 2001 and March 2002, principally with senior executives of domestic and foreign companies, but also with executives at chartered accountancies, binational chambers of commerce, national and foreign commercial banks and commercial law firms. The survey questions related to perceptions about multinational firms from 21 countries.

"The results reflect the views of expert business leaders, who are best positioned to have significant insights into issues of grand corruption and the bribery of government officials in developing countries," said TI Head of Research Fredrik Galtung.

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The Transparency International Bribe Payers Index 2002

835 business experts in 15 leading emerging market countries were asked: In the business sectors with which you are most familiar, please indicate how likely companies from the following countries are to pay or offer bribes to win or retain business in this country?

A perfect score, indicating zero perceived propensity to pay bribes, is 10.0, and thus the ranking below starts with companies from countries that are seen to have a low propensity for foreign bribe paying. All the survey data indicated that domestically owned companies in the 15 countries surveyed have a very high propensity to pay bribes – higher than that of foreign firms.

| Rank | | Score | Rank | | Score |
|-------------|-----------------------|--------------|-------------|-----------------------------------|--------------|
| 1 | Australia | 8.5 | 12 | France | 5.5 |
| 2 | Sweden | 8.4 | 13 | United States | 5.3 |
| | Switzerland | 8.4 | | Japan | 5.3 |
| 4 | Austria | 8.2 | 15 | Malaysia | 4.3 |
| 5 | Canada | 8.1 | | Hong Kong | 4.3 |
| 6 | Netherlands | 7.8 | 17 | Italy | 4.1 |
| | Belgium | 7.8 | 18 | South Korea | 3.9 |
| 8 | United Kingdom | 6.9 | 19 | Taiwan | 3.8 |
| 9 | Singapore | 6.3 | 20 | People's Republic of China | 3.5 |
| | Germany | 6.3 | 21 | Russia | 3.2 |
| 11 | Spain | 5.8 | | Domestic companies | 1.9 |

“The BPI results signal the rejection by multinational firms of the spirit of international anti-bribery conventions, while their actions lead to a huge misallocation of very scarce resources in developing countries,” said TI Advisory Council Chairman Kamal Hossain at a press conference in Hong Kong. “The data also points to very heavy bribe-paying by domestic firms in developing countries. Today’s BPI underscores the fact that we have a global problem of corporate bribe-paying that demands concerted global actions by official international organisations, civil society organisations and national governments,” he said.

Bribery in Business Sectors

“The BPI shows that the most flagrant corruption is seen in the public works/construction and arms and defence sectors, which are plagued by endemic bribery by foreign firms. In a new study by the UK chapter of TI, it is estimated, for example, that foreign bribery is associated with tens of billions of dollars of defence deals,” said Kamal Hossain.

While even agriculture, the sector considered least likely to involve bribery by foreign companies, scored only 5.9 against a clean score of 10, public works/construction was deemed highly corrupt, with a score of 1.3, followed by arms and defence with 1.9, and the oil and gas sector with a score of 2.7.

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Bribery in business sectors

How likely is it that senior public officials in this country would demand or accept bribes, e.g. for public tenders, regulations, licensing in the following business sectors?

The score is the mean of all the responses on a 0 to 10 basis where 0 represents very high perceived levels of corruption, and 10 represents extremely low perceived levels of corruption.

| Business Sector | Score | Business Sector | Score |
|-------------------------------|--------------|------------------------|--------------|
| Public works/construction | 1.3 | Heavy manufacturing | 4.5 |
| Arms and defence | 1.9 | Banking and finance | 4.7 |
| Oil and gas | 2.7 | Civilian aerospace | 4.9 |
| Real estate/property | 3.5 | Forestry | 5.1 |
| Telecoms | 3.7 | IT | 5.1 |
| Power generation/transmission | 3.7 | Fishery | 5.9 |
| Mining | 4.0 | Light manufacturing | 5.9 |
| Transportation/storage | 4.3 | Agriculture | 5.9 |
| Pharmaceuticals/medical care | 4.3 | | |

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The BPI and the OECD Anti-Bribery Convention

Just one in five of the respondents to the Gallup International poll across 15 leading emerging market economies is aware of the OECD Anti-Bribery Convention. The score is the same as in the first BPI in 1999.

Hailed as a landmark event, the ratification by the majority of leading industrial countries of the OECD Anti-Bribery Convention just over two years ago aimed to compel multinational firms to cease bribing foreign government officials by making such actions a criminal offence. The US was alone in having a similar law in place for more than two decades. “According to the BPI data, the Convention does not seem to have made any difference, so far, to the bribery approaches of many multinational firms,” said Eigen.

He noted that the first TI BPI in 1999 indicated that US firms, for example, were just as prone to using bribes abroad to win business as were German firms, which did not risk criminal prosecution for such actions and could set bribes abroad against their taxes. That survey also showed that only a very

small percentage of overseas business executives, including representatives of Western multinationals, were informed about the Convention or had plans to enforce it. "Today's new BPI data suggests that ignorance about the OECD Convention is widespread and that corporations clearly do not see the risks of criminal prosecution as particularly significant. This is a shocking conclusion."

Compared with the BPI 1999 survey, the propensity of US firms to pay bribes abroad appears to have increased, while there has been a marginal improvement in the German situation. But, overall, only 19% of the 835 respondents in the BPI 2002 survey were familiar with the Convention or knew something about it, and of these only 35% - or 7% of all respondents - said their companies had an anti-bribery compliance programme.

TI-Kenya Executive Director and TI Board member John Githongo, speaking in Johannesburg today, reiterated the need for legislation with teeth. "Fine words are not enough. Until people are brought before the courts, the OECD Convention will not make a difference to the developing world, where money is siphoned off from schools and hospitals and, as the BPI survey shows, essential public works projects."

BPI Survey Questions on the OECD Anti-Bribery Convention

(responses in the new 2002 BPI survey compared to the first 1999 BPI report)

| How familiar are you with the Convention? | 2002 | 1999 | What is your firm doing with regard to the Convention? | 2002 | 1999 |
|--|------|------|---|------|------|
| <i>Total number of survey respondents</i> | 835 | 779 | Number of respondents who knew of the Convention | 164 | 146 |
| I am familiar with the Convention | 7% | 6% | Review of practices being undertaken | 13% | 19% |
| I know something about it | 12% | 13% | Compliance programme already exists | 35% | |
| I have only heard about it | 32% | 43% | No action required, doesn't apply | 30% | 43% |
| I have not heard about it | 42% | 38% | No decision has been taken yet | 13% | 18% |
| Not stated | 7% | - | Don't know how org. is responding | 9% | 12% |
| | | | Not stated | - | 8% |

Current perceptions of the levels of corruption and its prime causes

TI's BPI survey found that overall most of the respondents did not believe that corruption is getting significantly worse in their countries, but the BPI results on this general matter were not encouraging.

| Do you perceive corruption to have got worse/better in your country over the past 5 years? | 2002 |
|---|-----------|
| Total sample of 835 respondents | % |
| Increased significantly | 10 |
| Increased somewhat | 13 |
| Total increased | 23 |
| Stayed the same | 37 |
| Decreased somewhat | 21 |
| Decreased significantly | 6 |
| Total decreased | 27 |
| Don't know | 13 |

The following additional notes to the Transparency International 14 May 2002 BPI press release are available at www.transparency.org

1. Additional survey tables and comparative data from the new 2002 survey and the first, late 1999, BPI survey.
2. Background questions and answers on the BPI.